



TENNESSEE REGISTRY OF ELECTION FINANCE

Contribution Audit of Representative Joey Hensley Pre-Primary 2006



Audit Team:

Jay Moeck, CPA, CFE
Audit Manager

Tabitha Peden, CFE
Senior Auditor

STATE OF TENNESSEE



REGISTRY OF ELECTION FINANCE
404 JAMES ROBERTSON PARKWAY, SUITE 1614
NASHVILLE, TN 37243-1360
(615) 741-7959
Fax: (615) 532-8905

BOARD MEMBERS
William F. Long, Jr., Nashville, Chairperson
George Harding, Lebanon
Patricia Heim, Nashville
Wade Hinton, Chattanooga
Darlene McNeece, Loudon
Lee Anne Murray, Nashville

EXECUTIVE DIRECTOR
Drew Rawlins

AUDIT MANAGER
Jay Moeck, CPA, CFE

December 5, 2007

Members of the Registry of Election Finance
404 James Robertson Parkway, Suite 1614
Nashville, TN 37243-1360

Ladies and Gentlemen,

Transmitted herewith is the agreed upon procedures for the un-itemized contribution audit of Representative Joey Hensley's Pre-Primary Campaign Financial Disclosure Statement for his 2006 election campaign for the House of Representatives. This audit was conducted pursuant to the requirements of T.C.A. §2-10-212.

The procedures were developed to aid the Registry of Election Finance in its responsibilities to monitor and enforce Tennessee's Campaign Financial Disclosure Law and Campaign Contribution Limits Law. The candidate is responsible for complying with campaign finance laws and the accuracy of campaign financial disclosures. The sufficiency of these procedures is solely the responsibility of the Registry's internal audit group. Consequently, we make no representation regarding the sufficiency of the agreed upon procedures described in the report for any other purpose than aiding the Registry.

This report is intended for the information and use of the Members of the Tennessee Registry of Election Finance as outlined; and is not intended to be and should not be used by anyone other than the Registry without understanding the objectives, purposes, and underlying assumptions. This report, however, is a matter of public record.

Sincerely,

Jay Moeck, CPA, CFE
Audit Manager

STATE OF TENNESSEE
REGISTRY OF ELECTION FINANCE
Audit Highlights
Representative Joey Hensley
2006 Pre-Primary Contribution Audit

AUDIT OBJECTIVES

The objectives of the audit were to determine Representative Joey Hensley's compliance with certain provisions of campaign finance disclosure laws and regulations; compliance with certain provisions of campaign contribution limits laws and regulations; accuracy and completeness of the un-itemized contribution disclosures on his 2006 Pre-Primary Campaign Financial Disclosure Statement; and to recommend appropriate actions to correct any deficiencies.

FINDINGS

1. Rep. Hensley failed to itemize two contributions from an individual who contributed more than \$100.00 during the reporting period. Rep. Hensley did not itemize all contributions from an individual who contributed a total amount of more than one hundred dollars (\$100.00) during the 2006 pre-primary reporting period. The \$200.00 in contributions are approximately 3% of the un-itemized contributions reported by the candidate. The improper classification violated T.C.A. §2-10-107(a)(2)(A)(i).

2. Rep. Hensley did not follow the Registry rule for reconciling the campaign bank account to the financial disclosure statements. Rep. Hensley did not follow Registry Rule 0530-1-1-.02(8) for performing reconciliations between his bank account and his financial disclosure statements. Rep. Hensley's deposits were \$490.76 less than the amount he reported as contributions on his pre-primary report.

TABLE OF CONTENTS

| | <u>PAGE</u> |
|---|--------------------|
| INTRODUCTION | |
| Audit Authority | 1 |
| Audit Purpose | 1 |
| Audit Scope | 1 |
| CAMPAIGN OVERVIEW | |
| Campaign Organization | 2 |
| Overview of Financial Activities | 2 |
| CHARTS | |
| 2006 Pre-Primary Contributions | 3 |
| 2006 Election Campaign Contributions | 3 |
| OBJECTIVES, METHODOLOGIES, CONCLUSIONS | |
| Contributions and Receipts | 4 |
| Findings | 5 |
| Finding 1- Rep. Hensley failed to itemize two contributions from an individual who contributed more than \$100.00 during the reporting period. | 5 |
| Finding 2- Rep. Hensley did not follow the Registry rule for reconciling bank account records to the financial disclosure statements. | 5 |
| Recommendation to Candidate | 6 |
| Recommendation to Registry | 6 |
| RESOLUTIONS | |
| Candidate's Corrective Action | 7 |
| Registry of Election Finance Actions | 7 |

INTRODUCTION

AUDIT AUTHORITY

In February 2006, the Tennessee Legislators and Governor Phil Bredesen enacted the “Comprehensive Governmental Ethics Reform Act of 2006,” which amended Tennessee’s campaign finance disclosure laws and duties of the Registry of Election Finance. The legislation established the audits of campaign disclosure reports. *Tennessee Code Annotated* (T.C.A.) §§2-10-206 and 2-10-212 authorize the Registry of Election Finance (Registry) to conduct audits of campaign finance disclosure statements filed with the Registry. The audit was initiated based on T.C.A. §2-10-212(i), which requires the Registry to audit any candidate that files a disclosure statement with more than 30% of the candidate’s contributions reported as un-itemized contributions and the un-itemized contributions were greater than \$5,000.00.

AUDIT PURPOSE

The Registry’s contribution audits were developed to assist and encourage candidate compliance with campaign disclosure laws. The audit process assists the Registry in providing timely and accurate campaign information to government officials and the general public. The Registry’s audits provide a tool to the Registry to evaluate the effectiveness of the campaign financial disclosure process. In addition, the audits assist the Registry with the enforcement of campaign finance limit laws and campaign finance disclosure laws. Finally, the audit reports are intended to assist the candidate and the State of Tennessee with promoting governmental accountability and integrity.

AUDIT SCOPE

Tennessee’s campaign financial disclosure law requires candidates to make biannual financial disclosures as of the date of the first contribution or first expenditure, whichever occurs earlier. The biannual report periods are from January 16 to June 30 and July 1 to January 15 of each year. During an election year, the disclosures expand to quarterly reports, pre-primary reports, and pre-general reports. This audit relates to disclosures made subsequent to the passage and approval of the Comprehensive Governmental Ethics Reform Act of 2006. The act was approved on February 15, 2006. In addition, the audit relates to only disclosure reports that meet the requirements listed in T.C.A. §2-10-212(i). Therefore, the audit reviewed only Rep. Hensley’s disclosures on his 2006 pre-primary report.

CAMPAIGN OVERVIEW

CAMPAIGN ORGANIZATION

Rep. Joey Hensley was a candidate in the November 7, 2006 general election for the House of Representatives for district 70. Rep. Hensley filed an Appointment of Political Treasurer Statement with the Registry on April 22, 2005 appointing Keith Ferguson as political treasurer.

The candidate's first financial disclosure for the 2006 campaign was the 2005 early supplemental report filed on January 26, 2006. The candidate's concluding financial disclosure report for the 2006 election was the 2006 fourth quarter report filed on January 25, 2007. The 2006 fourth quarter report indicated \$28,620.24 in cash on hand, no outstanding obligations, and no outstanding loans. The candidate completed his reporting requirements for the 2006 election campaign as of January 2007 when he transferred his remaining balance to his 2008 election campaign.

OVERVIEW OF FINANCIAL ACTIVITIES

The following financial amounts are a summary of the financial disclosures made by the candidate. The summarized amounts are from the following disclosure reports: 2005 early supplemental, 2006 first quarter, 2006 second quarter, 2006 pre-primary, 2006 third quarter, 2006 pre-general, and 2006 fourth quarter reports after amendments. As noted in the audit scope, we only audited un-itemized contributions from disclosures for the 2006 pre-primary report. The amounts displayed are for informational purposes only.

Summary of Financial Activity

(Un-audited Amounts)

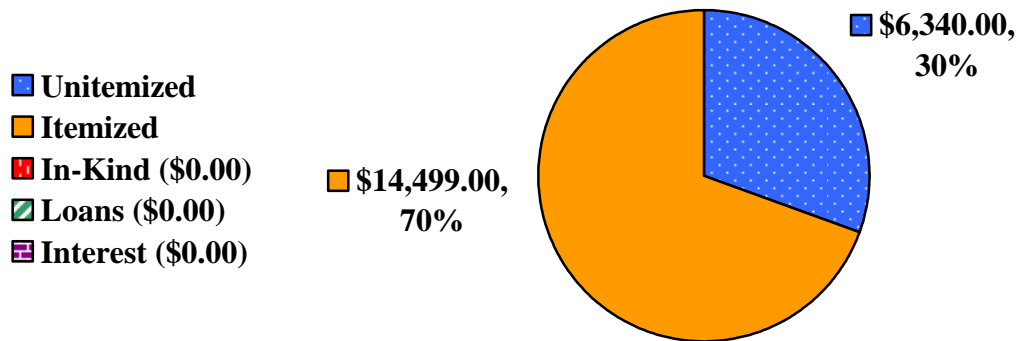
| | | | |
|---------------------------------------|-----------|--------------------|---|
| Cash on hand at January 1, 2005 | | \$3,543.52 | 1 |
| Receipts | | | |
| Itemized | 66,524.00 | | |
| Un-itemized | 25,125.00 | | |
| Interest | 0.00 | | |
| Loans receipted | 0.00 | | |
| Total receipts | | <u>\$91,649.00</u> | |
| Disbursements | | | |
| Itemized | 65,014.85 | | |
| Un-itemized | 1,557.43 | | |
| Loans principal payments | 0.00 | | |
| Total disbursements | | <u>\$66,572.28</u> | |
| Cash on hand at January 15, 2007 | | <u>\$28,620.24</u> | |
| Loans outstanding at January 15, 2007 | | \$0.00 | |
| Obligations at January 15, 2007 | | \$0.00 | |
| Total in-kind contributions received | | \$7,488.25 | |

1 The cash balance at 1/1/2005 was funds transferred from the candidate's 2004 campaign.

CHARTS

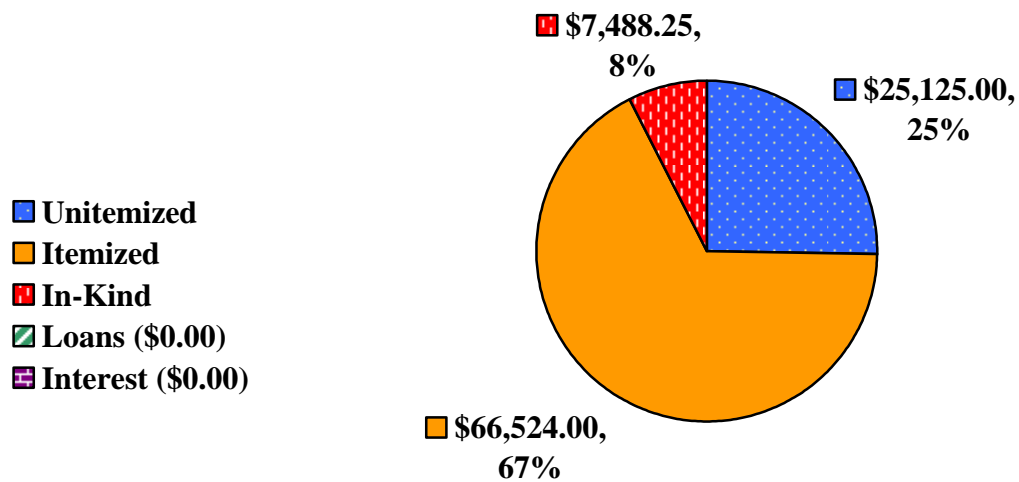
2006 PRE-PRIMARY CONTRIBUTIONS

The following chart shows the contributions reported by the candidate in the 2006 pre-primary report.



2006 ELECTION CAMPAIGN CONTRIBUTIONS

The following chart shows the contributions reported by the candidate for the 2006 election campaign.



OBJECTIVES, METHODOLOGIES, CONCLUSIONS

UN-ITEMIZED CONTRIBUTIONS AND RECEIPTS

Audit Objectives:

The objectives of our audit of un-itemized contributions were to determine whether:

- campaign contributions from individuals and Political Action Committees (PAC) were within limits;
- all contributions were from non-prohibited sources;
- all contributions received were reported, reported in the proper period, reported in compliance with T.C.A. §§2-10-105 and 2-10-107, and reported in compliance with the Registry's rules; and
- all contributions were supported by bank statements and deposit slips.

Audit Methodology:

The Registry obtained Rep. Hensley's 2006 Pre-Primary Campaign Financial Disclosure Statement Amended on August 4, 2006 to verify that the un-itemized contributions were greater than \$5,000.00 and 30% of the total contributions reported. We requested Rep. Hensley to provide supporting documentation for the un-itemized contributions of \$6,340.00 that he reported on his pre-primary report. Rep. Hensley's campaign records for the pre-primary included his bank statements, photocopied deposit slips, contribution lists, and check copies. The following steps were performed on Rep. Hensley's campaign documentation:

- The documentation was reviewed to determine if the candidate's un-itemized contributions received from July 1, 2006 thru July 24, 2006 totaled \$6,340.00.
- A list of un-itemized contributions was prepared and compared to the candidate's bank statements to determine if the candidate deposited all funds into a campaign bank account and properly recorded the funds.
- A list of un-itemized contributions by contributor was prepared and compared to the candidate's itemized contributions reported during the election to determine if campaign contributions from individuals and PACs complied with campaign contribution limits, T.C.A. §2-10-301, et seq.

- An un-itemized contributions list was reviewed to determine if all contributions were reported, all receipts received were reported, all contributions were reported in the proper period, all contributions were in compliance with T.C.A. §§2-10-105 and 2-10-107, and all contributions were in compliance with the Registry's rules.

Audit Conclusion:

Rep. Hensley's 2006 Pre-Primary Campaign Financial Disclosure Statement Amended on August 4, 2006 reported un-itemized contributions greater than \$5,000.00 and 30% of the total contributions. The review of un-itemized contributions indicated that Rep. Hensley disclosed two contributions as un-itemized contributions that should have been disclosed as itemized contributions. (Finding 1) In addition, a list of un-itemized contributions did not reconcile to the candidate's bank statements for the pre-primary period. Rep. Hensley's campaign records indicated a difference of \$490.76 between his bank statements and his campaign disclosure statement. The difference indicated that Rep. Hensley did not reconcile his bank account to his campaign disclosure statement, which is a violation of Registry rules. (Finding 2) The details of these violations are discussed in the findings below.

FINDINGS

1. Rep. Hensley failed to itemize two contributions from an individual who contributed more than \$100.00 during the reporting period.

Rep. Hensley did not itemize two \$100.00 contributions received from one individual (was included in un-itemized contributions) on his 2006 Pre-Primary Campaign Financial Disclosure Statement. T.C.A. §2-10-107(a)(2)(A)(i) requires contributions of more than \$100.00 from one source received during a reporting period to be itemized. The itemized information for each contributor must include name, address, occupation, employer, date of receipt, and amount of the contribution. The \$200.00 in contributions represented approximately 3% of the un-itemized contributions reported on Rep. Hensley's 2006 pre-primary report.

2. Rep. Hensley did not follow the Registry rule for reconciling bank account records to the financial disclosure statements.

Rep. Hensley did not follow Registry Rule 0530-1-1-.02(8) for performing reconciliations between his bank account and his financial disclosure statements. On his 2006 pre-primary report, Rep. Hensley reported \$20,839.00 in total contributions, which included \$6,340.00 in un-itemized contributions and \$14,499.00 in itemized contributions. However, Rep. Hensley's campaign bank account records for the period indicated deposits of \$20,348.24, a difference of \$490.76.

RECOMMENDATION TO CANDIDATE

Rep. Hensley should amend his 2006 Pre-Primary Campaign Financial Disclosure Statement to ensure that he reported all individuals that contributed more than \$100.00 during the reporting period as itemized. Rep. Hensley should ensure the campaign adopts and maintains a record-keeping system to determine the aggregate amount of contributions received per election from each contributor. Rep. Hensley should ensure all contributions are reported in the proper period by reconciling the campaign bank account to the campaign disclosure statements.

RECOMMENDATION TO REGISTRY

We recommend the Registry approve the audit performed as being sufficient and complete. Additionally, we recommend the Registry post the audit report to the Registry's website. The report and related finding will assist current and future candidates in understanding the audit process, the purposes of Registry rules, and types of procedures needed to comply with campaign finance laws.

RESOLUTIONS

CANDIDATE'S CORRECTIVE ACTIONS

After discussing the above findings with Rep. Hensley, he chose to take corrective action on his reports prior to the Registry's approval of the audit. Rep. Hensley amended his 2006 Pre-Primary Campaign Financial Disclosure Statement on November 7, 2007.

Correction Action - Finding 1:

On his amended pre-primary report, Rep. Hensley moved \$200.00 from un-itemized contributions to itemized contributions by itemizing the two \$100.00 contributions from one individual. The current amended report properly disclosed these contributions. Rep. Hensley corrected the omissions within ten days as outlined T.C.A. §2-10-110(a)(2)(A).

REGISTRY OF ELECTION FINANCE ACTIONS

The Members of the Registry of Election Finance reviewed the 2006 contribution audit of Rep. Hensley during the December 12, 2007 regular monthly meeting. The report contained two findings. The Registry voted to accept and approve the audit report with no further action.